

Memorandum



Date: October 16, 2007

To: Honorable Chairman Bruno A. Barreiro
and Members, Board of County Commissioners

Agenda Item No. 12B1

From: George M. Burgess
County Manager

Subject: Report Recommending How the Miami-Dade Aviation Department Will Reduce Costs to Airlines Operating at Miami International Airport (MIA) and Improve MIA's Competitiveness

This memo is in response to Resolution R-742-07 sponsored by Commissioner Rebeca Sosa and adopted by the Board of County Commissioners (BCC) on June 5, 2007. The resolution directs the County Manager to prepare a report outlining steps taken by the Miami-Dade Aviation Department (MDAD) to reduce airline costs and improve MIA's competitiveness.

Since 1993, Miami International Airport (MIA) has lost airline and passenger traffic to Fort Lauderdale International Airport (FLL). In that year, MIA accounted for 58 percent of the 17 million combined domestic origin-and-destination (O&D) passenger traffic of the two airports. By 2003, MIA's share had fallen to 35 percent of 24 million such passengers.

MIA is a residual airport, which means that the airlines bear the financial risk of the operations. More specifically, airline charges make up the difference to cover airport operating expenses that are not covered by revenues collected from non-airline activities. Airlines, and in particular officials of low-cost carriers, have stated that the cost of operating at MIA is too high. Moreover, officials of incumbent and potential MIA airlines have also stated that the current method of rates and charges discourages airlines from adding new flights at MIA versus FLL.

In an effort to make MIA more competitive, MDAD is undertaking the following five strategic initiatives to reduce costs to airlines and make MIA more competitive. They include:

- 1) Cutting operating costs;
- 2) Managing the balance of the capital improvement program (CIP) within the last approved budget by the BCC, in an effort to contain cost increases in debt service;
- 3) Strictly enforcing compliance in the payment of revenues to MDAD, and in particular payments from non-airline sources;
- 4) Developing new sources of non-airline revenue;
- 5) Developing initiatives to provide airlines greater control over their operating costs.

Cutting Operating Costs

The FY2006/07 MDAD adopted budget was \$620 million, of which \$130 million or 21 percent is salaries and fringes; \$81 million or 13 percent outside contracts; \$150 million or 25 percent debt service; and \$250 million or 41 percent for other expenses.

In a recent study by consulting firm Maximus, it stated that U.S. airports of comparable size to MIA averaged 786 employees. While we recognize that MIA may have its unique characteristics, and the number of MIA employees has dropped from 1,800 in 2003 to 1,380 in FY2007/2008, we believe this national benchmark offers an opportunity for cost reduction.

A key focus therefore is reducing costs related to salaries and fringes. Over a five-year period beginning in FY 2008, MDAD will cut 20 percent of its workforce. This will be accomplished through attrition and eliminating vacant positions; no employee will be laid off. Management salary increases will be tied to meeting these and other budgetary goals.

Other comprehensive budgetary controls include:

- Productivity enhancements throughout MDAD, such as in the janitorial program;
- Expediting repair and renovation of vacant spaces so they can be rented;
- Enhancing various processes and procedures in procurement, purchasing, and technology;
- Cross training specialized personnel to function as needed in more generalized positions within multiple divisions.

Managing the Balance of CIP Within the Last Approved Budget

Over the next five years, the greatest contributing factor to cost increases in the MDAD budget, and subsequently to the airlines, is the debt service associated with the CIP. The BCC approved this year an additional \$1 billion to complete the CIP.

MDAD has undertaken some drastic steps toward containing further increases in the CIP. They include:

- Closing the North Terminal so that the construction site will be on the landside (unrestricted) area of the airport, for easy access by contractors and construction equipment;
- Strict enforcement of contractors benchmark obligations;
- Restructuring of the MDAD oversight and reporting structure associated with the North Terminal.

Strict Enforcement of Payments (Revenues) to MDAD

MDAD has more than 200 permittees from whom approximately \$14 million in revenue is generated each year, representing seven percent of their reported revenue. MDAD has begun to conduct audits of permittees to ensure the full and accurate reporting of revenue.

Except to conclude outstanding payment plan arrangements, MDAD has suspended the practice of granting payment plans to tenants and permittees with payment delinquencies.

Developing New Sources of Non-airline Revenue

As stated previously, building non-airline revenue reduces airlines' costs at MIA. There are a number of initiatives to grow such non-airline revenue. They include:


- In 2008/2009, operating a rock mine at the former general aviation airport at Opa-locka West. It is estimated that over a 20-year period, net revenue to MDAD will range between \$280 million and \$376 million;

- Public/private partnerships to convert idle real estate assets (for which MDAD has no funds to develop) to revenue-producing assets, with an estimated annual increase of at least \$7 million;
- Growing concession revenue from the current annual \$64 million to \$80 million in 2011; During the same period, concession outlets will grow from 126 to 250;
- Compelling and effecting development of land located at the four general aviation airports which MDAD estimates will add another \$400,000 in annual revenue beginning FY07/08, growing to \$4 million annually at the end of the 5-year build-out period;
- Disposition of surplus land.

Developing Initiatives to Provide Airlines Greater Control over Their Operating Costs

Airline officials have pointed to a number of key airport initiatives that have had great success at growing air service and passenger traffic. MDAD has committed to implementing several such initiatives. They include:

- 1) Changing the current equalized rate structure to differential, whereby airlines that choose to be located in older terminal facilities will pay a lower rent; currently, all airlines pay the same rent regardless of the condition or age of the terminal facility. We expect to implement this change no later than 2011, when we expect North Terminal to be completed.
- 2) Changing from an all common-use gate system to a combination preferential-use and common-use system. Preferential-use gates allow an airline to incur the same monthly rate for the use of a gate, regardless of the number of flights it operates through that gate. In that way, airlines are incentivized to add more flights and, conversely, do not feel penalized when adding a single daily flight to a gate.
- 3) Converting MIA from a full-service airport whereby MDAD provides many of the services that, traditionally, airlines provide for themselves at other airports. This MDAD practice contributes to the high CEP. The services under review are management of the fuel farm, international baggage handling, gate control, and janitorial, just to name a few.



Assistant County Manager